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## A Reply to Olav Bjerkholt on the Postwar Norwegian Economy

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In spite of Professor Olav Bjerkholt's belittling language we are grateful for his spirited and highly critical commentary on our paper titled "Ragnar Frisch and the Postwar Norwegian Economy" (Sæther and Eriksen 2014). We very much hope that Professor Bjerkholt's critique finds a large audience. Although it makes a few criticisms that are legitimate, its main tendency is to bolster our interpretation of postwar Norway.

Bjerkholt (2014) quotes the work of numerous scholars of the 1950s about Norway. It seems reasonable to suppose that these scholars were themselves admirers of economic planning under democratic socialism or social democracy. They give high marks to Norway for prosecuting planning and controls in exemplary fashion. If the reader reads the quotations from our viewpoint, it is easy to see that most of them support our interpretation. That these writers celebrate Norway's supposed ability to prosecute its planning "without impinging upon democratic freedoms" (Galenson 1949, 261; quoted in Bjerkholt 2014, 302-303) and without "interference with political and civil liberties" (Bourneuf 1958, 2; quoted in Bjerkholt, p. 304) does not undermine our interpretation. Economic planning and controls restricted individual liberty, what Adam Smith called "natural liberty" (1976/1776, 687). We never contended that economic planning upset the country's institutions of democratic governance.

After quoting the studies from the 1950s, Bjerkholt concludes: "The studies cited above remarked on the healthy and resilient political democracy in Norway" (2014, 307). It seems to us that Professor Bjerkholt does not understand the

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distinction between democratic institutions and “free market economy” or “free enterprise economy.” Bjerkholt notes that we use the latter terms and remarks: “I do not know exactly what [Sæther and Eriksen] mean by the latter terms” (p. 306). Such confusion over terminology shows how deeply one’s ideological views are intertwined with one’s analysis. In his abstract, Bjerkholt accuses us of “ideological and moralistic bias,” as though he, by contrast, represents “Weberian objectivity,” which he then praises in the paper (p. 300). Isn’t it obvious that it is better to understand the disagreement as two contending interpretations of postwar Norway, neither with any scientific privilege?

Regarding the central importance of Ragnar Frisch, Bjerkholt provides a wonderful quotation from Alice Bourneuf (1958), a quotation we wish we had provided. It bears full reproduction here:

The fact that a large number of well-trained economists were available for the job was due largely to the work of Professor Ragnar Frisch of the economics department at the University of Oslo. Of the considerable number of economists who were trained at the University, only a few were absorbed by the University; most of the others, whether Conservative, Liberals, or Labor Party members were drawn into government service. In many countries, the scarcity of highly trained economists and administrators is a serious bottleneck in attempts at over-all economic planning. The success of any economic plan is bound to depend on the individuals available to carry it out. (Bourneuf 1958, 206)

Bjerkholt (2014, 300) says it is “blatant untruth” that Frisch put forward a vision of a planned economy with “no place for private investors or entrepreneurs in the system,” as we had written (Sæther and Eriksen 2014, 54). Bjerkholt adds, “I am not aware of any document by Frisch—published or unpublished—giving any kind of support to these curious assertions. Politically and economically the ideas expressed are totally remote from Frisch’s thinking.” In our reading of Frisch’s postwar writings we have found no references to the entrepreneur. As for the supposed remoteness to Frisch of the idea of an economic system where private investors play no role, the interested reader should contemplate the economic planning scenarios that Frisch imagines in his “Rational Price Fixing in a Socialistic Society” (Frisch 1966, 120-121).

It is interesting how Bjerkholt (2014, 305) draws on Patrick Salmon (1990). Firstly, Bjerkholt refrained from sharing what Salmon says about the objectives and instruments of the economic policies in Norway in the 1950s and 1960s:

Labour Party politicians and economists looked first and foremost to Britain as a model (Pharo 1984) but subjected the economy to controls over prices, consumption, and production which were ‘more stringent than in other democratic countries’ with the explicit aim of ‘transforming society into a socialist order’, as prime minister Gerhardsen put it (Hodne 1983: 143; Bourneuf 1958). (Salmon 1990, 162)

Second, Bjerkholt does show that Salmon reports that the Norwegian growth rate in the 1946–56 period was much higher than those of Denmark and Sweden, and that Salmon noted that Norway had a very high level of investment (1990, 156, 162). But Bjerkholt does not mention Salmon’s reference to Finland, which was harder hit by the war but achieved a higher growth rate of 5.5 percent. There has been considerable discussion about the reason for different growth rates in the initial postwar years. Odd Aukrust (1965, 64, our translation) notes that “The countries that were hardest hit by the war, have almost without exception had the strongest growth after 1946.” The Norwegian growth rate dropped considerably after 1950.

Finally, Bjerkholt omits part of Salmon’s explanation for the high level of investment:

But the government retained a large measure of control over the scale and direction of investments, thus contributing to one of the most distinctive features of Norwegian postwar development: a very high level of capital formation... (Salmon 1990, 162; cf. Bjerkholt 2014, 305)

The matter of Norway’s capital formation, or investment ratio, brings us to the most significant aspect of Bjerkholt’s critique. In our paper we make a major point that the record of Norwegian growth rates in the postwar years has to be viewed in light of Norway’s exceptionally high investment ratios, because that means that Norwegian consumers were in fact consuming less to provide for heightened growth rates. Professor Bjerkholt does not respond to the point at all.

Bjerkholt (2014, 306) questions what Norway’s policy options were in 1946, as though the challenges left nowhere else to turn. But most OEEC countries opted for a different policy, less controls, than Norway, and many of them performed better with lower investment ratios (Salmon 1990, 156). Bjerkholt (p. 307) then claims that we “suggest that the Norwegian economy had come to the brink of collapse” during the 1970s, but this statement has no foundation in our paper.

We conclude by saying that we are grateful to Professor Bjerkholt for engaging our interpretation of postwar Norway. We hope that readers learn from the clash of perspectives.

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